

Message Text

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ACTION ARA-10

INFO OCT-01 EUR-12 ISO-00 CIAE-00 DODE-00 PM-03 H-01

INR-07 L-02 NSAE-00 NSC-05 PA-01 PRS-01 SP-02 SS-15

USIA-06 AID-05 COME-00 EB-07 FRB-03 TRSE-00 XMB-02

OPIC-03 CIEP-01 LAB-04 SIL-01 OMB-01 FEA-01 INT-05

OES-03 /102 W

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R 111636Z FEB 75

FM AMEMBASSY QUITO

TO SECSTATE WASHDC 4395

INFO AMEMBASSY BOGOTA

AMEMBASSY BUENOS AIRES

AMEMBASSY CARACAS

AMCONSUL GUAYAQUIL

AMEMBASSY LIMA

AMEMBASSY WARSAW

C O N F I D E N T I A L QUITO 1000

E.O. 11652: GDS

TAGS: ENRG, PFOR, AR, EC

SUBJ: YPF ASSOCIATION CONTRACT WITH CEPE

1. ALMOST A YEAR AFTER THE ACCEPTANCE OF THE ARGENTINE YACIMIENTOS PETROLIFEROS FISCALES' (YPF) SOLITARY BID ON A 2000,000 HECTARE BLOCK IN ECUADOR'S ORIENTE, YPF AND THE ECUADOREAN STATE PETROLEUM COMPANY CEPE SIGNED THEIR ASSOCIATION CONTRACT. PRESIDENTIAL DECREE 057 OF FEBRUARY 4 RATIFIES THE ECUADOREAN INSCRIPTION.

2. THE STANDARD PROVISIONS OF THE ASSOCIATION CONTRACT INCLUDE A FIVE YEAR EXPLORATION PERIOD WITH EXPLORATION TO BEGIN WITHIN SIX MONTHS; A TWENTY YEAR EXPLORATION PERIOD, EXTENDABLE TEN ADDITIONAL YEARS, ON REDUCED ACREAGE; JOINT YPF-CEPE ADMINISTRATION AND EXECUTION; AND FULL YPF FINANCING. DURING THE EX-
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PLORATION PERIOD YPF IS REQUIRED TO PAY A \$1.4 MILLION ENTRY

FEE, TO INVEST A MODEST MINIMUM OF \$1.6 MILLION PER YEAR AND TO DRILL AT LEAST 3,500 METERS IN THE FIVE YEAR PERIOD.

3. IN THE EVENT OF PRODUCTION, THERE ARE STAGGERED ROYALTIES, PRODUCTION SHARING AND POSSIBLE PARTICIPATION. ROYALTIES, IN CASH OR KIND AT GOE OPTION, START AT 20 PERCENT WHEN PRODUCTION IS LESS THAN 30,000 BPD AND RISE TO 25 PERCENT ON 30-6000, BPD, REACHING A MAXIMUM OF 30 PERCENT WHEN PRODUCTION IS OVER 60,000 BPD. YPF WOULD ALSO PROVIDE A PRORATED SHARE OF CRUDE REQUIRED FOR DOMESTIC USE -- PROBABLY ABOUT 20 PERCENT OF PRODUCTION AT LOW LEVELS OF OUTPUT. PRODUCTION SHARING OF THE BALANCE WITH CEPE IS IN STEPS FROM 26.5 PERCENT OF THE FIRST 30,000 BPD OF REMAINING PRODUCTION TO 62.75 PERCENT OF THE NEXT 20,000 BPD AND SO ON UP TO 78.5 PERCENT OF ANYTHING OVER 200,000 NET BPD. IN ADDITION CEPE HAS THE OPTION TO PURCHASE UP TO 25 PERCENT PARTICIPATION IN YPF'S INVESTMENT TO BRING THE GOE SHARE OF OUTPUT UP TO AS MUCH AS 51 PERCENT IF ROYALTIES AND PRODUCTION-SHARING FAIL TO AMOUNT TO THAT MUCH. BY COMPARISON TEXACO-GULF PAYS A FLAT ROYALTY OF 16.67 PERCENT, AND TURNS OVER TO CEPE 25 PERCENT PARTICIPATION IN THE BALANCE OF PRODUCTION REMAINING AFTER DOMESTIC REQUIREMENTS. OTHER TAXES FOR YPF AND TEXACO-GULF WOULD BE THE SAME. THEREFORE, IN THE VENT OF PRODUCTION YPF WOULD BE HARDER PRESSED THAN TEXACO-GULF TO RECOVER ITS INVESTMENT OR GAIN MUCH EXPORTABLE CRUDE.

4. SPEECHMAKERS AT THE CONTRACT SIGNING CEREMONY SAID LITTLE ABOUT THE TERMS OF THE CONTRACT OR THE PROSPECTS FOR OIL. INSTEAD BOTH SIDES EMPHASIZED THE SIGNIFICANCE OF THE CONTRACT AS AN ACT OF LATIN AMERICAN INTEGRATION. CEPE MANAGER VARGAS PRAISED HIS OWN ORGANIZATION FOR HAVING BROUGHT ABOUT THIS STEP TOWARD UNITED EFFORT, TERMING THIS THE ONLY ALTERNATIVE TO SUBJUGATION. YPF ADMINISTRATOR GENERAL MARIO BLANCO HAILED THE ACT AS MOVEMENT TOWARD PERON'S GOAL OF LATIN AMERICAN CONTINENTAL SOLIDARITY BY THE YEAR 2000. THERE WAS OVERDONE ELOQUENCE ABOUT JOINING THE HEARTS AND MINDS OF THE FRATERNAL ARGENTINE AND ECUADOREAN PEOPLES FOR THEIR MUTUAL GREATNESS AND LIBERATION.

5. COMMENT: IN ITS THREE YEARS IN POWER THIS IS THE MILITARY GOVERNMENT'S FIRST CONTRACT FOR A NEW EXPLORATION VENTURE. DURING THAT PERIOD IT DID, OF COURSE, RENEGOTIATE CONTRACTS WITH CONFIDENTIAL

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THE FOUR PRESENT OPERATORS IN THE ORIENT -- TEXACO, CAYMAN, OKC, AND ANGLO (BURMAH). IT ALSO WATCHED THREE OTHERS WITHDRAW -- AMOCO, SUN, SHENADOAH -- AND IT CANCELLED THE CONCESSION OF ANOTHER -- MINAS Y PETROLEOS (HESS). THE YPF CONTRACT CLOSES THE EMBARRASSING CHAPTER OF FEBRUARY 1974 BIDDING ON ORIENTE LOTS WHEN THIRTY-THREE PREQUALIFIED FIRMS SPURNED THE BIDDING BECAUSE OF HARSH TERMS AND POOR TECHNICAL PROSPECTS. THE ONLY OTHER BIDDER (POLISH KOPEX) MADE A STAB AT NEGOTIATING A CONTRACT

AND SOON WALKED AWAY IN DISGUST. A BIG QUESTION NOW IS WHETHER
YPF WILL PLUNGE INTO USEFUL ACTIVITY OR WHETHER THE LEISURELY
PACE THAT CHARACTERIZED CONTRACT NEGOTIATIONS WILL ALSO MARK THE
EXPLORATION PHASE.
BREWSTER

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